

MORNING SUN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2014

MORNING SUN COMMUNITY SCHOOL DISTRICT

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MORNING SUN COMMUNITY SCHOOL DISTRICT

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MORNING SUN COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2013 Election)		
Robert Fletcher	Board President	2013
Jason Hagge	Vice President	2015
Kathy Stocker	Board Member	2013
Karen Minnis	Board Member	2013
Mike Crow	Board Member	2015
(After September 2013 Election)		
Robert Fletcher	Board President	2017
Jason Hagge	Vice President	2015
Mike Crow	Board Member	2015
Jamie Holmes	Board Member	2017
Karen Minnis	Board Member	2017
School Officials		
Doug Graber	Superintendent	2014
Kim Hagge	District Secretary	Indefinite
Sue Bryant	District Treasurer	Indefinite
Gruhn Law Firm	Attorney	Indefinite

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Muscatine, Iowa 52761
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Independent Auditor's Report

To the Board of Education
Morning Sun Community School District:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 14 and 39 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 18, 2015 on my consideration of Morning Sun Community School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Morning Sun Community School District's internal control over financial reporting and compliance.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morning Sun Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 Financial Highlights

- General Fund revenues increased from \$2,465,100 in fiscal 2013 to \$2,672,348 in fiscal 2014 and General Fund expenditures increased from \$2,449,796 in fiscal 2013 to \$2,473,077 in fiscal 2014. This resulted in an increase in the District's General Fund balance from \$140,270 in fiscal 2013 to \$339,541 in fiscal 2014, a 142% increase over the prior year.
- The increase in General Fund revenues was attributable to increased property tax and state grants received in fiscal year 2014. The increase in expenditures was due primarily to an increase in salaries and benefits paid in 2014.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Morning Sun Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Morning Sun Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Morning Sun Community School District Annual Financial Report

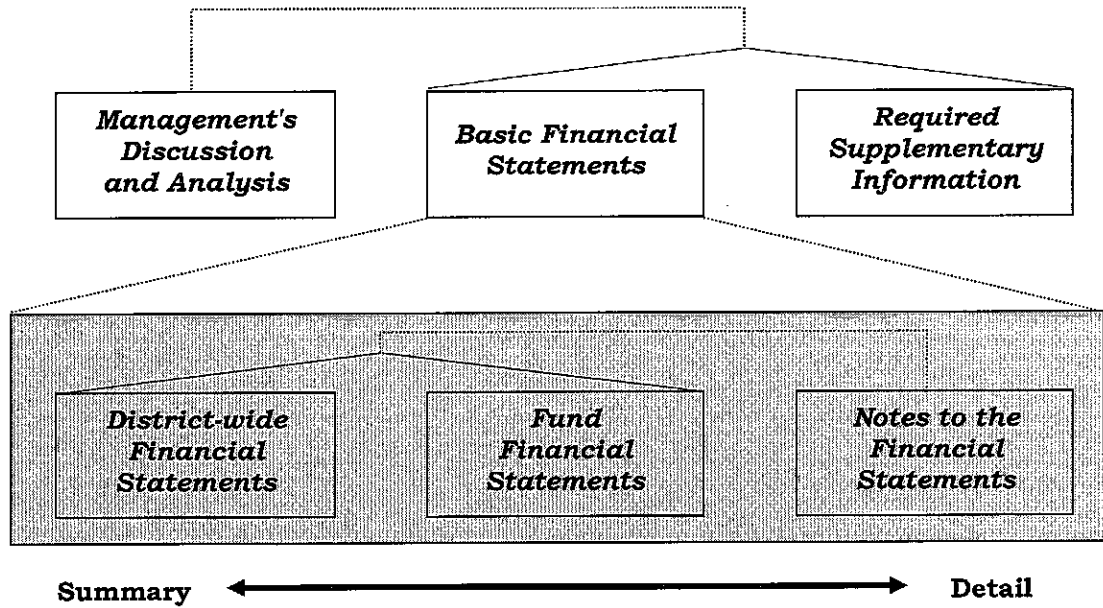


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements			
	Government-wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Fund
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services program
Required financial statements	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position
			• Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the District's Financial Activities

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

Figure A-3

Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
Current and other assets	\$ 1,840,864	\$ 1,880,526	\$ 3,334	\$ 1,473	\$ 1,844,198	\$ 1,881,999	-2.01%
Capital assets	<u>802,232</u>	<u>725,598</u>	<u>-</u>	<u>-</u>	<u>802,232</u>	<u>725,598</u>	10.56%
Total assets	<u>2,643,096</u>	<u>2,606,124</u>	<u>3,334</u>	<u>1,473</u>	<u>2,646,430</u>	<u>2,607,597</u>	1.49%
Long-term liabilities	88,000	85,000	-	-	88,000	85,000	3.53%
Other liabilities	<u>7,818</u>	<u>235,218</u>	<u>-</u>	<u>1,997</u>	<u>7,818</u>	<u>1,190,201</u>	-99.34%
Total liabilities	<u>95,818</u>	<u>1,273,204</u>	<u>-</u>	<u>1,997</u>	<u>95,818</u>	<u>1,275,201</u>	-92.49%
Deferred inflows of resources	<u>956,727</u>	<u>952,986</u>	<u>-</u>	<u>-</u>	<u>956,727</u>	<u>1,190,201</u>	-19.62%
Net position							
Net investment in capital assets	802,232	725,598	-	-	802,232	725,598	10.56%
Restricted	481,802	497,297	-	-	481,802	497,297	-3.12%
Unrestricted	<u>306,517</u>	<u>110,025</u>	<u>3,334</u>	<u>(524)</u>	<u>309,851</u>	<u>109,501</u>	182.97%
Total net position	<u>\$ 1,590,551</u>	<u>\$ 1,332,920</u>	<u>\$ 3,334</u>	<u>\$ (524)</u>	<u>\$ 1,593,885</u>	<u>\$ 1,332,396</u>	19.63%

The District's combined net position increased by 20%, or \$261,489, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings and equipment).

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased by \$15,495, or approximately 3% from the prior year. The decrease was primarily a result of increased expenses being larger than the increase in revenues.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased by \$200,350 or approximately 183%. This increase in unrestricted net position was a result of the increase in the District's General Fund balance.

Figure A-4 shows the change in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-4
Change in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
Revenues							
Program revenues							
Charges for service and sales	\$ 219,695	\$ 201,708	\$ 30,090	\$ 25,193	\$ 249,785	\$ 226,901	10.09%
Operating grants	363,479	357,080	36,910	36,381	400,389	393,461	1.76%
General revenues							
Property tax	1,029,483	951,947	-	-	1,029,483	951,947	8.14%
Statewide sales, services and use tax	198,873	174,334	-	-	198,873	174,334	14.08%
Unrestricted state grants	1,135,743	984,335	-	-	1,135,743	984,335	15.38%
Contributions and donations	1,219	1,020	-	-	1,219	1,020	19.51%
Unrestricted investment earnings	643	1,931	8	23	651	1,954	-66.68%
Other	<u>3,260</u>	<u>17,944</u>	<u>-</u>	<u>-</u>	<u>3,260</u>	<u>17,944</u>	-81.83%
Total revenues	<u>2,952,395</u>	<u>2,690,299</u>	<u>67,008</u>	<u>61,597</u>	<u>3,019,403</u>	<u>2,751,896</u>	9.72%
Program expenses							
Governmental activities							
Instruction	1,894,796	1,986,697	-	-	1,894,796	1,986,697	-4.63%
Support services	555,989	526,826	-	-	555,989	526,826	5.54%
Non-instructional programs	-	-	63,150	63,323	63,150	63,323	-0.27%
Other expenses	<u>243,979</u>	<u>285,199</u>	<u>-</u>	<u>-</u>	<u>243,979</u>	<u>285,199</u>	-14.45%
Total expenses	<u>2,694,764</u>	<u>2,798,722</u>	<u>63,150</u>	<u>63,323</u>	<u>2,757,914</u>	<u>2,862,045</u>	-3.64%
Increase (decrease) in net position	257,631	(108,423)	3,858	(1,726)	261,489	(110,149)	-337.40%
Net position, beginning of year	<u>1,332,920</u>	<u>1,441,343</u>	<u>(524)</u>	<u>1,202</u>	<u>1,332,396</u>	<u>1,332,396</u>	0.00%
Net position, end of year	<u>\$ 1,590,551</u>	<u>\$ 1,332,920</u>	<u>\$ 3,334</u>	<u>\$ (524)</u>	<u>\$ 1,593,885</u>	<u>\$ 1,222,247</u>	30.41%

In fiscal 2014, property tax and unrestricted state grants account for approximately 74% of the revenue from governmental activities while charges for service and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$3,019,403 of which \$2,952,395 was for governmental activities and \$67,008 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10% increase in revenues and a 4% decrease in expenses. Property tax revenues increased \$77,536 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$2,952,395 and expenses were \$2,694,764 for the year ended June 30, 2014. In a difficult budget year, the District was unable to balance the budget by cutting most expenses.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-2014	2014	2013	Change 2013-2014
Instruction	\$ 1,894,796	\$ 1,986,697	-4.6%	\$ 1,406,611	\$ 1,515,396	-7.2%
Support services	555,989	526,826	5.5%	549,320	520,253	5.6%
Other expenses	<u>243,979</u>	<u>285,199</u>	-14.5%	<u>155,659</u>	<u>204,285</u>	-23.8%
Total expenses	<u>\$ 2,694,764</u>	<u>\$ 2,798,722</u>	-3.7%	<u>\$ 2,111,590</u>	<u>\$ 2,239,934</u>	-5.7%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$219,695.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$363,479.
- The net cost of governmental activities was financed with \$1,228,356 in property tax and other taxes and \$1,135,743 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2014 were \$67,008 representing a 9% increase over the prior year and expenses were \$63,150, a less than 1% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Individual Fund Analysis

As previously noted, the Morning Sun Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$815,526, significantly above last year's ending fund balances of \$637,567. This is due to the decrease in revenue for the year being more than the decrease in expenditures.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. The District was very conservative with expenditures during FY14.
- The Capital Projects, Statewide Sales, Services and Use Tax Fund balance decreased from \$421,823 in 2013 to \$357,579 in 2014 due to the increased amount spent on building projects during the year.

Proprietary Fund Highlights

The Proprietary Funds net position increased from \$(524) at June 30, 2013 to \$3,334 at June 30, 2014, representing an increase of approximately 737%. Revenues and expenditures increased due to increased food, supply and wage expenditures during the year ended June 30, 2014.

Budgetary Highlights

During the year ended June 30, 2014, the Morning Sun Community School District did not amend its annual budget.

The District's revenues were \$787,290 less than budgeted revenues, a variance of 21%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were \$1,314,385 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to the expenditures being budgeted in a different function than the expenditures were coded.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2014, the District had invested \$802,232 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of approximately 11% over last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$50,148.

The original cost of the District's capital assets was \$2,051,251. Governmental funds account for \$1,986,106 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category, which increased from \$98,506 in 2013 to \$137,693 in 2014. This increase was a result of building improvements during 2014.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total District		Total Change
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2013-2014</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	377,998	332,818	-	-	377,998	332,818	13.57%
Improvements, other than buildings	137,693	98,506	-	-	137,693	98,506	39.78%
Furniture and equipment	<u>59,541</u>	<u>67,274</u>	<u>-</u>	<u>-</u>	<u>59,541</u>	<u>67,274</u>	-11.49%
Totals	<u>\$802,232</u>	<u>\$725,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$802,232</u>	<u>\$725,598</u>	10.56%

Long-Term Debt

At June 30, 2014, the District had \$88,000 long-term debt outstanding. This represents an increase of 3.5% over the prior year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$2.7 million.

Figure A-7
Outstanding Long-term
Obligations

	Total District		Total Change
	<u>2014</u>	<u>2013</u>	<u>2013-2014</u>
OPEB Liability	\$ 88,000	\$ 85,000	3.53%

Economic Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The passing of the SILO Tax on March 2, 2004 was a positive fiscal highlight for FY05 and subsequent years for the Morning Sun Community School District, bringing in revenue for the Capital Project Fund of approximately \$150,000 each year.
- The District has experienced stable enrollment for the past several years and expects this to continue.

- The District also passed a new Revenue Purpose Statement in September 2014.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Hagge, District Secretary/Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2014

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 636,540	\$ 1,487	\$ 638,027
Receivables			
Property tax			
Delinquent	24,060	-	24,060
Succeeding year	956,727	-	956,727
Accounts receivable	761	250	1,011
Income surtax	60,793	-	60,793
Due from other governments	161,983	-	161,983
Inventories	-	1,597	1,597
Non-depreciable capital assets	227,000	-	227,000
Capital assets, net of accumulated depreciation	<u>575,232</u>	<u>-</u>	<u>575,232</u>
Total assets	<u>2,643,096</u>	<u>3,334</u>	<u>2,646,430</u>
Liabilities			
Accounts payable	2,168	-	2,168
Long-term liabilities			
Portion due after one year			
Net OPEB liability	<u>88,000</u>	<u>-</u>	<u>88,000</u>
Total liabilities	<u>95,818</u>	<u>-</u>	<u>95,818</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	<u>956,727</u>	<u>-</u>	<u>956,727</u>
Net Position			
Net investment in capital assets	802,232	-	802,232
Restricted for			
Categorical funding	5,817	-	5,817
Management levy purposes	107,044	-	107,044
Physical plant and equipment levy	11,362	-	11,362
School infrastructure	357,579	-	357,579
Unrestricted	<u>306,517</u>	<u>3,334</u>	<u>309,851</u>
Total net position	<u>\$ 1,590,551</u>	<u>\$ 3,334</u>	<u>\$ 1,593,885</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Business Type Activities	Activities
Governmental activities						
Instruction						
Regular instruction	\$ 1,406,924	\$ 188,170	\$ 257,835	\$ -	\$ (960,919)	\$ (960,919)
Special instruction	410,335	31,525	10,655	-	(368,155)	(368,155)
Other instruction	77,537	-	-	-	(77,537)	(77,537)
	<u>1,894,796</u>	<u>219,695</u>	<u>268,490</u>	<u>-</u>	<u>(1,406,611)</u>	<u>(1,406,611)</u>
Support services						
Student	78,969	-	-	-	(78,969)	(78,969)
Instructional staff	18,147	-	-	-	(18,147)	(18,147)
Administration	244,371	-	-	-	(244,371)	(244,371)
Operation and maintenance of plant	147,816	-	-	-	(147,816)	(147,816)
Transportation	66,686	-	6,669	-	(60,017)	(60,017)
	<u>555,989</u>	<u>-</u>	<u>6,669</u>	<u>-</u>	<u>(549,320)</u>	<u>(549,320)</u>
Other expenses						
Facilities acquisition	136,335	-	-	-	(136,335)	(136,335)
AEA flowthrough	88,320	-	88,320	-	-	-
Depreciation (unallocated) *	19,324	-	-	-	(19,324)	(19,324)
	<u>243,979</u>	<u>-</u>	<u>88,320</u>	<u>-</u>	<u>(155,659)</u>	<u>(155,659)</u>
Total governmental activities	<u>2,694,764</u>	<u>219,695</u>	<u>363,479</u>	<u>-</u>	<u>(2,111,590)</u>	<u>(2,111,590)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Governmental Business Type Activities	Activities	Total
Functions/Programs (continued)						
Business type activities						
Non-instructional programs						
Food service operations						
Total						
General Revenues						
Property tax levied for						
General purposes						
Statewide sales, services and use tax						
Unrestricted state grants						
Contributions and donations						
Unrestricted investment earnings						
Other						
Total general revenues						
Change in net position						
Net position beginning of year						
Net position end of year						

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2014

Exhibit C

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash, cash equivalents and pooled investments	\$ 276,307	\$ 243,722	\$ 116,511	\$ 636,540
Receivables				
Property tax				
Delinquent	22,165	-	1,895	24,060
Succeeding year	888,036	-	68,691	956,727
Accounts receivable	761	-	-	761
Income surtax	60,793	-	-	60,793
Due from other governments	48,126	113,857	-	161,983
Total assets	<u>\$1,296,188</u>	<u>\$ 357,579</u>	<u>\$ 187,097</u>	<u>\$1,840,864</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	\$ 2,168	\$ -	\$ -	\$ 2,168
Due to other governments	5,650	-	-	5,650
Total liabilities	<u>7,818</u>	<u>-</u>	<u>-</u>	<u>7,818</u>
Deferred inflows of resources				
Unavailable revenue				
Succeeding year property tax	888,036	-	68,691	956,727
Income surtax	60,793	-	-	60,793
Total deferred inflows of resources	<u>948,829</u>	<u>-</u>	<u>68,691</u>	<u>1,017,520</u>
Fund balances				
Restricted for				
Categorical funding	5,817	-	-	5,817
Management levy purposes	-	-	107,044	107,044
School infrastructure	-	357,579	-	357,579
Physical plant and equipment	-	-	11,362	11,362
Unassigned	333,724	-	-	333,724
Total fund balances	<u>339,541</u>	<u>357,579</u>	<u>118,406</u>	<u>815,526</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,296,188</u>	<u>\$ 357,579</u>	<u>\$ 187,097</u>	<u>\$1,840,864</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2014

Exhibit D

Total fund balances of governmental funds	\$ 815,526
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**Amounts reported for governmental activities in the Statement of Net Position
are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	802,232
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Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	60,793
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Long-term liabilities, specifically net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(88,000)</u>
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Net position of governmental activities	<u>\$ 1,590,551</u>
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MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

Exhibit E

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 948,324	\$ -	\$ 75,122	\$ 1,023,446
Tuition	213,416	-	-	213,416
Other	11,388	-	14	11,402
State sources	1,441,220	198,873	-	1,640,093
Federal sources	58,000	-	-	58,000
Total revenues	<u>2,672,348</u>	<u>198,873</u>	<u>75,136</u>	<u>2,946,357</u>
Expenditures				
Current				
Instruction				
Regular	1,374,999	-	13,053	1,388,052
Special	409,854	-	-	409,854
Other	77,446	-	-	77,446
	<u>1,862,299</u>	<u>-</u>	<u>13,053</u>	<u>1,875,352</u>
Support services				
Student	78,844	-	-	78,844
Instructional staff	18,116	-	-	18,116
Administration	241,095	-	2,887	243,982
Operation & maintenance of plant	133,123	-	14,523	147,646
Transportation	51,280	-	1,741	53,021
	<u>522,458</u>	<u>-</u>	<u>19,151</u>	<u>541,609</u>
Other expenditures				
Facilities acquisition	-	263,117	-	263,117
AEA flowthrough	88,320	-	-	88,320
	<u>88,320</u>	<u>263,117</u>	<u>-</u>	<u>351,437</u>
Total expenditures	<u>2,473,077</u>	<u>263,117</u>	<u>32,204</u>	<u>2,768,398</u>
Change in fund balance	199,271	(64,244)	42,932	177,959
Fund balance, beginning of year	140,270	421,823	75,474	637,567
Fund balance, end of year	<u>\$ 339,541</u>	<u>\$ 357,579</u>	<u>\$ 118,406</u>	<u>\$ 815,526</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2014

Exhibit F

Change in fund balances - total governmental funds **\$ 177,959**

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$126,782	
Depreciation expense	<u>(50,148)</u>	76,634

Certain revenues not collected for several months after year end are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds.	6,038
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Other postemployment benefits	<u>(3,000)</u>
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Change in net position of governmental activities **\$ 257,631**

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2014

Exhibit G

	<u>Nonmajor School Nutrition</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,487
Accounts receivable	250
Inventories	<u>1,597</u>
Total assets	<u>3,334</u>
Liabilities	
Current liabilities	<u>-</u>
Net Position	
Unrestricted	<u>3,334</u>
Total net position	<u><u>\$ 3,334</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014

Exhibit H

	<u>Nonmajor School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 30,090</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	27,847
Benefits	4,617
Purchased services	375
Supplies	<u>30,311</u>
Total operating expenses	<u>63,150</u>
Operating loss	<u>(33,060)</u>
Non-operating revenues	
Interest income	8
State sources	581
Federal sources	<u>36,329</u>
Total non-operating revenues	<u>36,918</u>
Increase in net position	3,858
Net position, beginning of year	<u>(524)</u>
Net position, end of year	<u>\$ 3,334</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

Exhibit I

	<u>Nonmajor School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 29,840
Cash payments to employees for services	(34,461)
Cash payments to suppliers for goods and services	<u>(26,060)</u>
Net cash used in operating activities	<u>(30,681)</u>
Cash flows from non-capital financing activities	
State grants received	581
Federal grants received	<u>31,579</u>
Net cash provided by non-capital financing activities	<u>32,160</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>8</u>
Net increase in cash and cash equivalents	1,487
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	<u>\$ 1,487</u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(33,060)
Adjustments to reconcile operating loss to net cash used in operating activities	
Commodities used	4,750
(Increase) in accounts receivable	(250)
(Increase) in inventory	(124)
(Decrease) in negative cash	<u>(1,997)</u>
Net cash used in operating activities	<u>\$(30,681)</u>

Non-cash investing, capital and related financing activities.

During the year ended June 30, 2014, the District received \$4,750 of federal commodities.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2014

Note 1. Summary of Significant Accounting Policies

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements. The geographic area served includes the City of Morning Sun, Iowa, and the agricultural territory in Des Moines and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Morning Sun Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Morning Sun Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account all resources used in the acquisition and construction of capital facilities and other capital assets from the revenue of the Statewide Sales, Services and Use Tax.

The District reports no major proprietary funds. However, it reports one nonmajor enterprise fund, the School Nutrition Fund which is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:
Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2103 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$50,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Advances from Grantors - Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax and income surtax receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity - In the governmental fund financial statements, fund equity is classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Position - In the district-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Net position restricted through enabling legislation includes \$306,517 for school infrastructure, \$11,362 for physical plant and equipment and \$107,044 for management levy purposes.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures in the other expenditures function exceeded the amount budgeted.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment

companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$191,478 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated AAAM by Standard and Poor's Financial Services.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 227,000	\$ -	\$ -	\$ 227,000
Capital assets being depreciated:				
Buildings and improvements	873,237	55,081	-	928,318
Improvements other than buildings	242,202	48,583	-	290,785
Furniture and equipment	516,885	23,118	-	540,003
Total capital assets being depreciated	1,632,324	126,782	-	1,759,106
Less accumulated depreciation for:				
Buildings and improvements	540,419	9,901	-	550,320
Improvements other than buildings	143,696	9,396	-	153,092
Furniture and equipment	449,611	30,851	-	480,462
Total accumulated depreciation	1,133,726	50,148	-	1,183,874
Total capital assets being depreciated, net	498,598	76,634	-	575,232
Governmental activities capital assets, net	<u>\$ 725,598</u>	<u>\$ 76,634</u>	<u>\$ -</u>	<u>\$ 802,232</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	65,145	-	-	65,145
Business type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 17,241
Transportation	<u>13,583</u>
	30,824
Unallocated depreciation	<u>19,324</u>
Total governmental activities depreciation expense	<u>\$ 50,148</u>

Business type activities

Food services	<u>\$ -</u>
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Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
OPEB liability	\$ 85,000	\$ 17,000	\$ 14,000	\$ 88,000	\$ -

Note 5. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 5.95%, 5.78% and 5.38% of their annual covered salary and the District was required to contribute 8.93%, 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2014, 2013 and 2012 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$105,601, \$102,011 and \$92,858, respectively, equal to the required contributions for each year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 19 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 13,000
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(3,000)</u>
Annual OPEB cost	14,000
Contributions made	<u>(11,000)</u>
Increase in net OPEB obligation	3,000
Net OPEB obligation beginning of year	<u>85,000</u>
Net OPEB obligation end of year	<u>\$ 88,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB asset was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed 85% of the \$1,000 to the medical plan. Plan members eligible for benefits contributed the remaining amount of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$ 5,010	0.0%	\$ 3,010
6/30/2012	\$ 5,015	0.0%	\$ 8,025
6/30/2013	\$ 87,975	12.5%	\$ 85,000
6/30/2014	\$ 14,000	78.6%	\$ 88,000

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$132,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$132,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.2 million and the ratio of UAAL to covered payroll was 10.9%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP-2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$472.00 for single and \$1,128.00 for individual and spouse. Upon retirement, the retired participant is assumed to pay 100% of the required premium. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 7. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$88,320 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2014, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 10. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No.27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

Required Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 For the Year Ended June 30, 2014

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 1,248,264	\$ 30,098	\$ 1,278,362	\$ 1,988,107	\$ 1,988,107	\$ (709,745)
State sources	1,640,093	581	1,640,674	1,552,548	1,552,548	88,126
Federal sources	58,000	36,329	94,329	260,000	260,000	(165,671)
Total revenues	<u>2,946,357</u>	<u>67,008</u>	<u>3,013,365</u>	<u>3,800,655</u>	<u>3,800,655</u>	<u>(787,290)</u>
Expenditures/expenses						
Instruction	1,875,352	-	1,875,352	2,050,000	2,050,000	174,648
Support services	541,609	-	541,609	1,755,200	1,755,200	1,213,591
Non-instructional programs	-	63,150	63,150	143,200	143,200	80,050
Other expenditures	351,437	-	351,437	197,533	197,533	(153,904)
Total expenditures/expenses	<u>2,768,398</u>	<u>63,150</u>	<u>2,831,548</u>	<u>4,145,933</u>	<u>4,145,933</u>	<u>1,314,385</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	177,959	3,858	181,817	(345,278)	(345,278)	527,095
Balance, beginning of year	637,567	(524)	637,043	886,482	886,482	(249,439)
Balance, end of year	<u>\$ 815,526</u>	<u>\$ 3,334</u>	<u>\$ 818,860</u>	<u>\$ 541,204</u>	<u>\$ 541,204</u>	<u>\$ 277,656</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures/expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

During the year ended June 30, 2014, expenditures in the other expenditures function exceeded the amount budgeted.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$ 1,326,792	6.2%
2011	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$ 1,268,429	6.5%
2012	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$ 1,250,189	6.6%
2013	July 1, 2012	\$ -	\$ 132,000	\$ 132,000	0%	\$ 1,220,803	10.8%
2014	July 1, 2012	\$ -	\$ 132,000	\$ 132,000	0%	\$ 1,207,738	10.9%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

Schedule 1

	<u>Special Revenue</u>	<u>Capital Projects</u>	
		Physical Plant and Equipment	
	Management Levy	Levy	<u>Total</u>
Assets			
Cash, cash equivalents and pooled investments	\$105,149	\$ 11,362	\$116,511
Receivables			
Property tax			
Delinquent	1,895	-	1,895
Succeeding year	50,000	18,691	68,691
Total assets	<u>\$157,044</u>	<u>\$ 30,053</u>	<u>\$187,097</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities	\$ -	\$ -	\$ -
Deferred inflows of resources			
Unavailable revenue			
Succeeding year property tax	50,000	18,691	68,691
Fund balances			
Restricted for			
Management levy purposes	107,044	-	107,044
Physical plant and equipment	-	11,362	11,362
Total fund balances	<u>107,044</u>	<u>11,362</u>	<u>118,406</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$157,044</u>	<u>\$ 30,053</u>	<u>\$187,097</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

Schedule 2

	<u>Special Revenue</u>	<u>Capital Projects</u>	
		Physical Plant and Equipment	
	<u>Management Levy</u>	<u>Levy</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 75,122	\$ -	\$ 75,122
Other	-	14	14
Total revenues	<u>75,122</u>	<u>14</u>	<u>75,136</u>
Expenditures			
Current			
Instruction			
Regular	<u>13,053</u>	-	<u>13,053</u>
Support services			
Administration	2,887	-	2,887
Operation and maintenance of plant	14,523	-	14,523
Transportation	<u>1,741</u>	-	<u>1,741</u>
Total support services	<u>19,151</u>	-	<u>19,151</u>
Total expenditures	<u>32,204</u>	-	<u>32,204</u>
Net change in fund balances	42,918	14	42,932
Fund balances, beginning of year	<u>64,126</u>	<u>11,348</u>	<u>75,474</u>
Fund balances, end of year	<u>\$ 107,044</u>	<u>\$ 11,362</u>	<u>\$ 118,406</u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Local sources										
Local tax	\$1,023,446	\$1,033,607	\$1,126,363	\$ 864,187	\$ 858,439	\$ 791,866	\$ 769,237	\$ 767,387	\$ 733,483	\$ 707,193
Tuition	213,416	199,458	227,428	227,615	229,970	489,147	565,525	374,903	468,233	588,995
Other	11,402	23,144	98,934	88,737	24,415	264,420	75,294	112,252	50,175	141,474
State sources	1,640,093	1,358,888	1,336,668	1,210,211	974,511	1,256,395	1,172,733	1,150,726	1,088,780	999,550
Federal sources	58,000	74,411	104,457	159,337	285,273	80,051	66,230	93,835	76,459	76,662
Total revenues	<u>\$2,946,357</u>	<u>\$2,689,508</u>	<u>\$2,893,850</u>	<u>\$2,550,087</u>	<u>\$2,372,608</u>	<u>\$2,881,879</u>	<u>\$2,649,019</u>	<u>\$2,499,103</u>	<u>\$2,417,130</u>	<u>\$2,513,874</u>
Expenditures										
Current										
Instruction										
Regular	\$1,388,052	\$1,361,630	\$1,381,253	\$1,358,539	\$1,489,824	\$1,556,146	\$1,513,488	\$1,410,647	\$1,414,682	\$1,665,278
Special	409,854	455,116	350,108	360,548	307,443	305,761	330,433	264,987	268,192	48,168
Other	77,446	99,845	81,106	77,272	38,730	31,528	37,023	14,139	21,549	-
Support services										
Student	78,844	68,915	77,027	122,077	106,115	106,958	80,443	79,001	81,557	89,124
Instructional staff	18,116	28,911	29,475	25,431	32,218	29,274	28,312	27,795	36,302	25,013
Administration	243,982	224,819	217,754	217,148	226,088	430,554	258,045	234,498	193,872	309,111
Operation and maintenance of plant	147,646	135,104	146,019	134,388	157,017	191,864	191,355	191,342	154,092	154,935
Transportation	53,021	58,264	55,841	38,531	36,472	36,427	37,885	32,157	37,055	34,094
Other expenditures										
Facilities acquisition	263,117	186,202	150,523	49,305	179,331	50,107	145,998	130,150	52,121	52,949
AEA flowthrough	88,320	80,914	80,894	89,948	87,559	82,242	74,630	72,062	66,969	64,561
Total expenditures	<u>\$2,768,398</u>	<u>\$2,699,720</u>	<u>\$2,570,000</u>	<u>\$2,473,187</u>	<u>\$2,660,797</u>	<u>\$2,820,861</u>	<u>\$2,697,612</u>	<u>\$2,456,778</u>	<u>\$2,326,391</u>	<u>\$2,443,233</u>

See accompanying Independent Auditor's Report.

Kay L. Chapman, CPA PC

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Morning Sun Community School District:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 18, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Morning Sun Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morning Sun Community School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Morning Community School District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I

consider the deficiencies described in Part I of the accompanying Schedule of Findings as items A and B to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item C to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morning Sun Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Morning Sun Community School District's Responses to Findings

Morning Sun Community School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. Morning Sun Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Morning Sun Community School District during the course of my audit. Should you have any questions concerning any of the about matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 18, 2015

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2014

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2014

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

- C. Use of District's Federal Identification Number - It was noted during the audit that the student bank organization is using the District's federal identification number on its bank account.

Recommendation - Organizations that are not part of the school district should not use the District's federal identification number. The District should contact the organization and insist that it discontinue using the District's federal identification number. If the organization continues to use the District's federal identification number, the organization's funds and records should be incorporated into the District's accounting system as agency funds.

Response - We will talk to the organization about getting its own federal identification number and insist that it discontinue using the District's.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the amount budgeted in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2014

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2014

Beginning balance	\$ 421,823
Statewide sales, services and use tax	198,873
Expenditures/transfers out	
School infrastructure	
Building improvements	<u>(263,117)</u>
Ending balance	<u>\$ 357,579</u>

For the year ended June 30, 2014, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2014

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant